

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number 001-38154*

**CODA OCTOPUS GROUP, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

3300 S Hiwassee Rd, Suite 104-105,  
Orlando, Florida  
(Address of principal executive offices)

Registrant's telephone number, including area code:

34-2008348  
(I.R.S. Employer  
Identification Number)

32835  
(Zip Code)

(863) 937 8985

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock	CODA	Nasdaq

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of issuer's common stock, \$0.001 par value as of March 15, 2022 is 10,857,195.

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PART I. FINANCIAL INFORMATION

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Balance Sheets**  
**January 31, 2022 and October 31, 2021**

	<u>2022</u>	<u>2021</u>
	<u>Unaudited</u>	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 20,711,228	\$ 17,747,656
Accounts Receivable, net	1,535,682	4,207,996
Inventory	11,159,798	10,691,177
Unbilled Receivables	401,661	1,080,384
Prepaid Expenses	313,945	1,202,327
Other Current Assets	<u>651,724</u>	<u>627,619</u>
Total Current Assets	34,774,038	35,557,159
<b>FIXED ASSETS</b>		
Property and Equipment, net	6,743,670	6,037,101
<b>OTHER ASSETS</b>		
Goodwill and Other Intangibles, net	3,794,880	3,794,383
Deferred Tax Asset	<u>86,643</u>	<u>76,776</u>
Total Other Assets	<u>3,881,523</u>	<u>3,871,159</u>
Total Assets	<u>\$ 45,399,231</u>	<u>\$ 45,465,419</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements

**CODA OCTOPUS GROUP, INC.**  
**Consolidated Balance Sheets (Continued)**  
**January 31, 2022 and October 31, 2021**

	<u>2022</u>	<u>2021</u>
	<u>Unaudited</u>	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 319,605	\$ 1,454,611
Accrued Expenses and Other Current Liabilities	805,573	740,449
Note Payable	-	63,559
Deferred Revenue	<u>1,288,231</u>	<u>1,999,841</u>
Total Current Liabilities	2,413,409	4,258,460
<b>LONG TERM LIABILITIES</b>		
Deferred Revenue, less current portion	<u>153,176</u>	<u>157,886</u>
Total Long Term Liabilities	<u>153,176</u>	<u>157,886</u>

Total Liabilities	2,566,585	4,416,346
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock, \$.001 par value; 150,000,000 shares authorized, 10,857,195 shares issued and outstanding as of January 31, 2022 and October 31, 2021, respectively	10,858	10,858
Additional Paid-in Capital	61,508,306	61,183,131
Accumulated Other Comprehensive Loss	(1,425,909)	(1,667,059)
Accumulated Deficit	(17,260,609)	(18,477,857)
Total Stockholders' Equity	42,832,646	41,049,073
Total Liabilities and Stockholders' Equity	<u>\$ 45,399,231</u>	<u>\$ 45,465,419</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements

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**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Income and Comprehensive Income**  
**For the Periods Indicated**  
**(Unaudited)**

	<b>Three Months Ended January 31,</b>	
	<b>2022</b>	<b>2021</b>
Net Revenues	\$ 5,838,208	\$ 5,050,459
Cost of Revenues	1,678,274	1,735,537
Gross Profit	4,159,934	3,314,922
<b>OPERATING EXPENSES</b>		
Research & Development	672,890	583,139
Selling, General & Administrative	2,111,112	1,813,366
Total Operating Expenses	2,784,002	2,396,505
<b>INCOME FROM OPERATIONS</b>	<b>1,375,932</b>	<b>918,417</b>
<b>OTHER INCOME (EXPENSE)</b>		
Other Income	79,994	92,025
Interest Expense	(11,278)	(14,514)
Total Other Income	68,716	77,511
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>1,444,648</b>	<b>995,928</b>
<b>INCOME TAX (EXPENSE) BENEFIT</b>		
Current Tax (Expense) Benefit	(285,609)	24,725
Deferred Tax Benefit	58,209	108,191
Total Income Tax (Expense) Benefit	(227,400)	132,916
<b>NET INCOME</b>	<b>\$ 1,217,248</b>	<b>\$ 1,128,844</b>
<b>NET INCOME PER SHARE:</b>		
Basic	\$ 0.11	\$ 0.10
Diluted	\$ 0.11	\$ 0.10
<b>WEIGHTED AVERAGE SHARES:</b>		
Basic	10,857,195	10,751,881
Diluted	11,396,861	11,308,881
<b>NET INCOME</b>	<b>\$ 1,217,248</b>	<b>\$ 1,128,844</b>
Foreign Currency Translation Adjustment	241,150	925,613
Total Other Comprehensive Income	241,150	925,613
<b>COMPREHENSIVE INCOME</b>	<b>\$ 1,458,398</b>	<b>\$ 2,054,457</b>

The accompanying notes are an integral part of these unaudited consolidated financial statements

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**Consolidated Statements of Changes in Stockholders' Equity**  
**For the Three Months Ended January 31, 2022 and 2021**  
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
Balance, October 31, 2020	10,751,881	\$ 10,753	\$ 60,132,415	\$ (2,321,278)	\$ (23,425,622)	\$ 34,396,268
Employee stock based compensation	-	-	174,447	-	-	174,447
Foreign currency translation adjustment	-	-	-	925,613	-	925,613
Net Income	-	-	-	-	1,128,844	1,128,844
Balance, January 31, 2021	<u>10,751,881</u>	<u>\$ 10,753</u>	<u>\$ 60,306,862</u>	<u>\$ (1,395,665)</u>	<u>\$ (22,296,778)</u>	<u>\$ 36,625,172</u>
Balance, October 31, 2021	10,857,195	\$ 10,858	\$ 61,183,131	\$ (1,667,059)	\$ (18,477,857)	\$ 41,049,073
Employee stock based compensation	-	-	325,175	-	-	325,175
Foreign currency translation adjustment	-	-	-	241,150	-	241,150
Net Income	-	-	-	-	1,217,248	1,217,248
Balance, January 31, 2022	<u>10,857,195</u>	<u>\$ 10,858</u>	<u>\$ 61,508,306</u>	<u>\$ (1,425,909)</u>	<u>\$ (17,260,609)</u>	<u>\$ 42,832,646</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements

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**CODA OCTOPUS GROUP, INC.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	Three Months Ended January 31,	
	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,217,248	\$ 1,128,844
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	161,466	366,183
Stock based compensation	325,175	174,447
Deferred income taxes	(9,750)	(108,191)
Funding from Paycheck Protection Program recognized as income	-	(89,971)
(Increase) decrease in operating assets:		
Accounts receivable	2,608,920	144,023
Inventory	(613,670)	(853,446)
Unbilled receivables	675,179	(450,180)
Prepaid expenses	863,618	(10,805)
Other current assets	(26,093)	(47,225)
Increase (decrease) in operating liabilities:		
Accounts payable and other current liabilities	(1,047,139)	(540,604)
Deferred revenue	(693,455)	316,639
Net Cash Provided by Operating Activities	<u>3,461,499</u>	<u>29,714</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(987,093)	(406,083)
Purchases of other intangible assets	(14,871)	(3,061)
Net Cash Used in by Investing Activities	<u>(1,001,964)</u>	<u>(409,144)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of note	(63,559)	(125,142)
Proceeds from Paycheck Protection Program	-	526,545
Net Cash (Used in) Provided by Financing Activities	<u>(63,559)</u>	<u>401,403</u>
EFFECT OF CURRENCY TRANSLATION ON CHANGES IN CASH	<u>567,596</u>	<u>925,613</u>
NET INCREASE IN CASH	2,963,572	947,586
CASH AT THE BEGINNING OF THE PERIOD	<u>17,747,656</u>	<u>15,134,289</u>
CASH AT THE END OF THE PERIOD	<u>\$ 20,711,228</u>	<u>\$ 16,081,875</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 11,278	\$ 14,514
Cash paid for taxes	\$ 51,264	\$ -

The accompanying notes are an integral part of these unaudited consolidated financial statements

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## NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Coda Octopus Group, Inc. (“Coda,” “the Company,” or “we”) operates two distinct operating business units. These are the Marine Technology Business (“Products Business”, “Products Operations” or “Products Segment”) and the Marine Engineering Business (“Services Business”, “Engineering Business” or “Engineering Operations”). The Marine Technology Business sells technology solutions to the subsea and underwater markets. These are designed, developed, manufactured and supported by the Business. Among the solutions it designs and develops, and which currently is its main revenue generating product, is its real time 3D volumetric imaging sonar which is a patented unique and leading product in the subsea/underwater market and marketed under the name Echoscope<sup>®</sup> and Echoscope PIPE<sup>®</sup> - PIPE is an acronym for Parallel Intelligent Processing Engine. It also recently launched a new diver management system (Diver Augmented Vision Display (DAVD)) system addressing the global defense and commercial diving market and which it believes is a significant part of its growth pillars. The requirements for the DAVD system emanated from Office of Naval Research and the concept of using a pair of transparent glasses in the Head up Display (HUD) is patented and licensed to the Company by United States Department of the Navy at Naval Surface Warfare Center Panama City Division. The Marine Engineering Business are sub-contractors to Prime Defense Contractor and generally supplies proprietary sub-assemblies to these Primes for incorporation into broader mission critical defense systems. These parts typically are supplied for the life of the program to which they pertain.

The consolidated financial statements include the accounts of Coda Octopus Group, Inc. and our domestic and foreign subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

## NOTE 2 – REVENUE RECOGNITION

The Company recognizes revenue under the Financial Accounting Standards Board’s Topic 606, *Revenue from Contracts with Customers* (“Topic 606”).

Topic 606 has established a five-step process to determine the amount of revenue to record from contracts with customers. The five steps are:

- Determine if we have a contract with a customer;
- Determine the performance obligations in that contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations; and
- Determine when to recognize revenue.

Our revenues are earned under formal contracts with our customers and are derived from both sales and rental of underwater technologies and equipment for real time 3D imaging, mapping, defense and survey applications and from the engineering services which we provide primarily to prime defense contractors. Our contracts do not include the possibility for additional contingent consideration so that our determination of the contract price does not involve having to consider potential additional variable consideration. Our sales do not include a right of return by the customer.

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**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
January 31, 2022 and October 31, 2021

## NOTE 2 – REVENUE RECOGNITION (Continued)

With regard to our Marine Technology Business (“Products Business”), all of our products are sold on a stand-alone basis and those market prices are evidence of the value of the products. To the extent that we also provide services (e.g., installation, training, post-sales technical support etc.), those services are either included as part of the product or are subject to written contracts based on the stand-alone value of those services. Revenue from the sale of services is recognized when those services have been provided to the customer and evidence of the provision of those services exist.

Revenue derived from either our subscription package offerings or rental of our equipment is recognized when performance obligations are met, in particular, on a daily basis during the subscription or rental period.

For arrangements with multiple performance obligations, we recognize product revenue by allocating the transaction revenue to each performance obligation based on the relative fair value of each deliverable and recognize revenue when performance obligations are met including when equipment is delivered, and for rental of equipment, when installation and other services are performed.

Our contracts sometimes require customer payments in advance of revenue recognition and are recognized as revenue when the Company has fulfilled its obligations under the respective contracts. Until such time, we recognize this prepayment as deferred revenue.

For software license sales for which any services rendered are not considered distinct to the functionality of the software, we recognize revenue upon delivery of the software.

With respect to revenues related to our Services Business, there are contracts in place that specify the fixed hourly rate and other reimbursable costs to be billed based on material and direct labor hours incurred and, revenue is recognized on these contracts based on material and the direct labor hours incurred. Revenues from fixed-price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred (materials and direct labor hours) to date to estimated total services (materials and direct labor hours) for each contract. This method is used as we consider expenditures for direct materials and labor hours to be the best available measure of progress on these contracts.

On a quarterly basis, we examine all of our fixed-price contracts to determine if there are any losses to be recognized during the period. Any such loss is recorded in the quarter in which the loss first becomes apparent based upon costs incurred to date and the estimated costs to complete as determined by experience from similar contracts. Variations from estimated contract performance could result in adjustments to operating results.

### *Recoverability of Deferred Costs*

In accordance with Topic 606, we defer costs on projects for service revenue. Deferred costs consist primarily of incremental direct costs to customize and install systems, as defined in individual customer contracts, including costs to acquire hardware and software from third parties and payroll costs for our employees and other third parties. The pricing of these service contracts is intended to provide for the recovery of these types of deferred costs over the life of the contract.

NOTE 2 – REVENUE RECOGNITION (Continued)

We recognize such costs in accordance with our revenue recognition policy by contract. For revenue recognized under the percentage of completion method, costs are recognized as products are delivered or services are provided in accordance with the percentage of completion calculation. For revenue recognized over time, costs are recognized ratably over the term of the contract, commencing on the date of revenue recognition. At each quarterly balance sheet date, we review deferred costs, to ensure they are ultimately recoverable.

Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue.

*Deferred Commissions*

Our incremental direct costs of obtaining a contract, which consists of sales commissions are deferred and amortized over the period of the contract performance. We classify deferred commissions as current or noncurrent based on the timing of when we expect to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets, and other assets, net, respectively, in our consolidated balance sheets. As of January 31, 2022, and October 31, 2021, we had deferred commissions of \$0 and \$0, respectively. Amortization expense related to deferred commissions was \$0 and \$3,884 in the three months years ended January 31, 2022, and 2021, respectively.

*Other Revenue Disclosures*

See Note 15 – Disaggregation of Revenue for a breakdown of revenues from external customers and cost of those revenues between our Product Segment and Services Segment including information on the split of revenues by geography.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, accounts receivable, accounts payable, accrued expenses and notes payable. The carrying amounts of cash, accounts receivable, accounts payable and accrued expenses approximate fair values because of the short-term nature of these instruments. The aggregate carrying amount of the notes payable approximates fair value as they bear interest at a market interest rate based on their term and maturity.

The fair value of the Company's long-term debt approximates its carrying amount based on the fact that the Company believes it could obtain similar terms and conditions for similar debt.

NOTE 4 – FOREIGN CURRENCY TRANSLATION

Assets and liabilities are translated at the prevailing exchange rates at the balance sheet dates. Related revenues and expenses are translated at weighted average exchange rates in effect during the reporting period. Stockholders' equity, fixed assets and long-term investments are recorded at historical exchange rates. Resulting translation adjustments are recorded as a separate component in stockholders' equity as part of accumulated other comprehensive income or (loss) as may be appropriate. Foreign currency transaction gains and losses are included in the consolidated statements of income and comprehensive income.

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
January 31, 2022 and October 31, 2021

NOTE 5 – INVENTORY

Inventory is stated at the lower of cost (First in, First Out method) or net realizable value. Inventory consisted of the following components:

	January 31, 2022	October 31, 2021
Raw materials and parts	\$ 7,926,535	\$ 7,525,419
Work in progress	793,246	919,619
Finished goods	2,440,017	2,246,139
Total Inventory	<u>\$ 11,159,798</u>	<u>\$ 10,691,177</u>

NOTE 6 – FIXED ASSETS

Property and equipment consisted of the following as of:

	January 31, 2022	October 31, 2021
Buildings	\$ 6,019,236	\$ 5,298,028
Land	200,000	200,000
Office machinery and equipment	1,666,436	1,622,871
Rental assets	2,427,189	2,326,486
Furniture, fixtures and improvements	1,206,402	1,218,217
Totals	<u>11,519,263</u>	<u>10,665,602</u>
Less: accumulated depreciation	<u>(4,775,593)</u>	<u>(4,628,501)</u>
Total Property and Equipment, net	<u>\$ 6,743,670</u>	<u>\$ 6,037,101</u>

NOTE 7 – OTHER CURRENT ASSETS

Other current assets consisted of the following as of:

	January 31, 2022	October 31, 2021
Deposits	\$ 32,280	\$ 63,992

Other Tax Receivables		43,156	-
Employee Retention Credit Receivables		576,288	563,627
Total Other Current Assets	\$	651,724	\$ 627,619

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**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
January 31, 2022 and October 31, 2021

NOTE 8 – ESTIMATES

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues including unbilled and deferred revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include estimates related to the percentage of completion method used to account for contracts including costs and earnings in excess of billings, billings in excess of costs and estimated earnings and the valuation of goodwill.

NOTE 9 – CONTRACTS IN PROGRESS

Costs and estimated earnings in excess of billings on uncompleted contracts represent accumulated project expenses and fees which have not been invoiced to customers as of the date of the balance sheet. These amounts are stated on the consolidated balance sheets as Unbilled Receivables of \$401,661 and \$1,080,384 as of January 31, 2022, and October 31, 2021, respectively.

Our Deferred Revenue of \$1,151,451 and \$1,879,790 as of January 31, 2022, and October 31, 2021, respectively, consists of billings in excess of costs and revenues received as part of our warranty obligations upon completing a sale, as elaborated further in the last paragraph of this note.

Sales of equipment include a separate performance obligation for warranty, which is treated as deferred revenue, along with extended warranty sales, which may be purchased by customers. These amounts are amortized over the relevant warranty period (12 months is our standard warranty or 24, 36 or 60 months for extended warranty, sold as Through Life Support (TLS) Package) from the date of sale. These amounts are stated on the consolidated balance sheets as a component of Deferred Revenue and were \$289,956 and \$277,937 as of January 31, 2022 and October 31, 2021, respectively.

NOTE 10 – CONCENTRATIONS

Significant Customers

During the three months ended January 31, 2022, the Company had two customers from whom it generated sales greater than 10% of net revenues. Revenue from these customers was \$1,855,731, or 32% of net revenues during the period. Receivables from these customers was less than 10% of net receivables as of January 31, 2022.

During the three months ended January 31, 2021, the Company had two customers from whom it generated sales greater than 10% of net revenues. Revenues from these customers was \$1,303,807, or 26% of net revenues during the year. Total accounts receivable from these customers as of January 31, 2021 was \$862,850 or 46% of accounts receivable.

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**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
January 31, 2022 and October 31, 2021

NOTE 11 – NOTE PAYABLE

	January 31, 2022	October 31, 2021
Secured note payable to HSBC NA with interest payable on the 28 <sup>th</sup> day of each month at 4.56% per annum. Our monthly repayment obligation under this loan is \$43,777 (comprising both principal and interest repayment). The maturity of this Loan was December 28, 2021	\$ -	\$ 63,559
Total	-	63,559
Less: current portion	-	(63,559)
Total Long Term Note Payable	\$ -	\$ -

The HSBC loan was satisfied in full in the Current Quarter.

The Company entered into a \$4,000,000 revolving line of credit facility with HSBC NA on November 27, 2019, with the interest rate established as the applicable prime rate. This revolving line of credit facility is subject to annual renewal and has been extended to November 2022. The outstanding balance on the line of credit was \$0 as of January 31, 2022 and October 31, 2021.

NOTE 12 – RECENT ACCOUNTING PRONOUNCEMENTS

There have been no new accounting pronouncements not yet effective that have significant or potential significance, to our Consolidated Financial Statements.

NOTE 13 – EARNINGS PER SHARE

Three Months Ended January 31,	Three Months Ended January 31,
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Fiscal Period	2022	2021
<b>Numerator:</b>		
Net Income	\$ 1,217,248	\$ 1,128,844
<b>Denominator:</b>		
Basic weighted average common shares outstanding	10,857,195	10,751,881
Unvested portion of options and restricted stock awards	539,666	557,000
Diluted outstanding shares	11,396,861	11,308,881
<b>Net Income per share</b>		
Basic	\$ 0.11	\$ 0.10
Diluted	\$ 0.11	\$ 0.10

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**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
January 31, 2022 and October 31, 2021

NOTE 14 -SEGMENT ANALYSIS

Based on the fundamental difference in the types of offering products versus services, we operate two distinct reportable segments which are managed separately. Coda Octopus Products ("Marine Technology Business" or "Products Segment") operations are comprised primarily of sale of underwater technology sonar solutions, products for underwater operations including hardware and software; diver management system; and rental of solutions and products to the underwater market. Coda Octopus Martech and Coda Octopus Colmek ("Marine Engineering Business" or "Services Segment") provides engineering services primarily as sub-contractors to prime defense contractors.

Segment operating income is total segment revenue reduced by operating expenses identifiable with the business segment. Corporate includes general corporate administrative costs ("Overhead").

The Company evaluates performance and allocates resources based upon segment operating income.

There are inter-segment sales which have been eliminated in our financial statements but are disclosed in the tables below for information purposes.

The following table summarizes segment asset and operating balances by reportable segment as of and for the three months ended January 31, 2022, and 2021, respectively.

The Company's reportable business segments sell their goods and services in four geographic locations:

- Americas
- Europe
- Australia/Asia
- Middle East/Africa

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**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
January 31, 2022 and October 31, 2021

NOTE 14 -SEGMENT ANALYSIS (Continued)

	Marine Technology Business (Products)	Marine Engineering Business (Services)	Overhead	Total
<b>Three Months Ended January 31, 2022</b>				
Net Revenues	\$ 3,823,748	\$ 2,014,460	\$ -	\$ 5,838,208
Cost of Revenues	572,292	1,105,982	-	1,678,274
<b>Gross Profit</b>	3,251,456	908,478	-	4,159,934
Research & Development	529,375	143,515	-	672,890
Selling, General & Administrative	753,614	651,149	706,349	2,111,112
<b>Total Operating Expenses</b>	1,282,989	794,664	706,349	2,784,002
<b>Income (Loss) from Operations</b>	1,968,467	113,814	(706,349)	1,375,932
<b>Other Income (Expense)</b>				
Other Income	9,049	70,945	-	79,994
Interest Expense	(4,882)	(5,026)	(1,370)	(11,278)
<b>Total Other Income (Expense)</b>	4,167	65,919	(1,370)	68,716



Income (Loss) before Income Taxes	1,972,634	179,733	(707,719)	1,444,648
<b>Income Tax (Expense) Benefit</b>				
Current Tax (Expense) Benefit	(266,520)	24,036	(43,125)	(285,609)
Deferred Tax Benefit	6,708	204	51,297	58,209
<b>Total Income Tax (Expense) Benefit</b>	<b>(259,812)</b>	<b>24,240</b>	<b>8,172</b>	<b>(227,400)</b>
<b>Net Income (Loss)</b>	<b>\$ 1,712,822</b>	<b>\$ 203,973</b>	<b>\$ (699,547)</b>	<b>\$ 1,217,248</b>
<b>Supplemental Disclosures</b>				
Total Assets	\$ 30,847,114	\$ 13,893,382	\$ 658,735	\$ 45,399,231
Total Liabilities	\$ 1,635,666	\$ 501,339	\$ 429,580	\$ 2,566,585
Revenues from Intercompany Sales - eliminated from sales above	\$ 389,395	\$ 115,823	\$ 600,000	\$ 1,105,218
Depreciation and Amortization	\$ 135,658	\$ 16,657	\$ 9,151	\$ 161,466
Purchases of Long-lived Assets	\$ 986,093	\$ 1,000	\$ 14,871	\$ 1,001,964

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**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
January 31, 2022 and October 31, 2021

NOTE 14 -SEGMENT ANALYSIS (Continued)

	<b>Marine Technology Business (Products)</b>	<b>Marine Engineering Business (Services)</b>	<b>Overhead</b>	<b>Total</b>
<b>Three Months Ended January 31, 2021</b>				
Net Revenues	\$ 3,748,279	\$ 1,302,180	\$ -	\$ 5,050,459
Cost of Revenues	894,275	841,262	-	1,735,537
<b>Gross Profit</b>	<b>2,854,004</b>	<b>460,918</b>	<b>-</b>	<b>3,314,922</b>
Research & Development	441,744	141,395	-	583,139
Selling, General & Administrative	733,825	567,559	511,982	1,813,366
<b>Total Operating Expenses</b>	<b>1,175,569</b>	<b>708,954</b>	<b>511,982</b>	<b>2,396,505</b>
<b>Income (Loss) from Operations</b>	<b>1,678,435</b>	<b>(248,036)</b>	<b>(511,982)</b>	<b>918,417</b>
<b>Other Income (Expense)</b>				
Other Income	2,036	18	-	92,025
Interest Expense	(2,253)	(5,151)	(7,110)	(14,514)
<b>Total Other Income (Expense)</b>	<b>(217)</b>	<b>(5,133)</b>	<b>(7,110)</b>	<b>77,511</b>
Income (Loss) before Income Taxes	1,678,218	(253,169)	(519,092)	995,928
<b>Income Tax (Expense) Benefit</b>				
Current Tax (Expense) Benefit	12,653	-	12,072	24,725
Deferred Tax (Expense) Benefit	(11,155)	152,086	(32,740)	108,191
<b>Total Income Tax (Expense) Benefit</b>	<b>1,498</b>	<b>152,086</b>	<b>(20,668)</b>	<b>132,916</b>
<b>Net Income (Loss)</b>	<b>\$ 1,679,716</b>	<b>\$ (101,083)</b>	<b>\$ (539,760)</b>	<b>\$ 1,128,844</b>
<b>Supplemental Disclosures</b>				
Total Assets	\$ 24,767,757	\$ 14,362,811	\$ 1,224,954	\$ 40,355,522
Total Liabilities	\$ 1,573,260	\$ 1,436,624	\$ 720,466	\$ 3,730,350
Revenues from Intercompany Sales - eliminated from sales above	\$ 370,629	\$ 49,201	\$ 675,000	\$ 1,094,830
Depreciation and Amortization	\$ 312,122	\$ 47,645	\$ 6,416	\$ 366,183
Purchases of Long-lived Assets	\$ 399,975	\$ 4,177	\$ 4,992	\$ 409,144

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
January 31, 2022 and October 31, 2021

## NOTE 15 –DISAGGREGATION OF REVENUE

	For the Three Months Ended January 31, 2022		
	Marine Technology Business	Marine Engineering Business	Grand Total
<b>Disaggregation of Total Net Sales</b>			
<b>Revenues</b>			
<b>Primary Geographical Markets</b>			
Americas	\$ 2,057,668	\$ 1,204,282	\$ 3,261,950
Europe	491,016	810,178	1,301,194
Australia/Asia	815,084	-	815,084
Middle East/Africa	459,980	-	459,980
<b>Total Revenues</b>	<b>\$ 3,823,748</b>	<b>\$ 2,014,460</b>	<b>\$ 5,838,208</b>
<b>Major Goods/Service Lines</b>			
Equipment Sales	\$ 1,958,845	\$ 436,864	\$ 2,395,709
Equipment Rentals	630,468	-	630,468
Software Sales	304,796	-	304,796
Engineering Parts	-	1,300,618	1,300,618
Services	929,639	276,978	1,206,617
<b>Total Revenues</b>	<b>\$ 3,823,748</b>	<b>\$ 2,014,460</b>	<b>\$ 5,838,208</b>
Goods transferred at a point in time	\$ 2,263,641	\$ 436,866	\$ 2,724,343
Services transferred over time	1,560,107	1,577,594	3,113,865
<b>Total Revenues</b>	<b>\$ 3,823,748</b>	<b>\$ 2,014,460</b>	<b>\$ 5,838,208</b>

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**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
January 31, 2022 and October 31, 2021

## NOTE 15 –DISAGGREGATION OF REVENUE (Continued)

	For the Three Months Ended January 31, 2021		
	Marine Technology Business	Marine Engineering Business	Grand Total
<b>Disaggregation of Total Net Sales</b>			
<b>Revenues</b>			
<b>Primary Geographical Markets</b>			
Americas	\$ 549,278	\$ 516,441	\$ 1,065,719
Europe	1,125,112	785,739	1,910,851
Australia/Asia	2,008,210	-	2,008,210
Middle East/Africa	65,679	-	65,679
<b>Total Revenues</b>	<b>\$ 3,748,279</b>	<b>\$ 1,302,180</b>	<b>\$ 5,050,459</b>
<b>Major Goods/Service Lines</b>			
Equipment Sales	\$ 2,793,487	\$ 220,957	\$ 3,014,444
Equipment Rentals	334,363	-	334,363
Software Sales	225,222	-	225,222
Engineering Parts	-	856,347	856,347
Services	395,207	224,876	620,083
<b>Total Revenues</b>	<b>\$ 3,748,279</b>	<b>\$ 1,302,180</b>	<b>\$ 5,050,459</b>
Goods transferred at a point in time	\$ 3,056,037	\$ 220,957	\$ 3,276,994
Services transferred over time	692,242	1,081,223	1,773,465
<b>Total Revenues</b>	<b>\$ 3,748,279</b>	<b>\$ 1,302,180</b>	<b>\$ 5,050,459</b>

**CODA OCTOPUS GROUP, INC.**  
Notes to the Consolidated Financial Statements  
January 31, 2022 and October 31, 2021

**NOTE 16 – COVID-19**

The Company faces various risks related to the global outbreak of coronavirus disease (“COVID-19”).

The Engineering Services Business is dependent on its workforce to deliver its products and services primarily to the U.S. and U.K. Governments. If significant portions of the Engineering Services Business’s workforce are unable to work effectively, or if the U.S. or UK. Government and/or other customers’ operations are curtailed due to illness, quarantines, government actions, facility closures, or other restrictions in connection with the COVID-19 Pandemic, the Engineering Services Business’s operations is likely be severely impacted. The Engineering Services Business may be unable to perform fully on its contracts and costs may increase as a result of the COVID-19 outbreak. These cost increases may not be fully recoverable either from our customers or under existing insurance policies. At this time, the Company’s management cannot predict with any precision the full extent of the impact which COVID-19 Pandemic will have on the Company, but management continues to mitigate where it can and monitor the situation, to assess further possible implications to operations, the supply chain, and customers, and to take actions in an effort to mitigate adverse consequences.

Additionally, the Company is subject to flow downs from prime defense contractors under Defense Federal Acquisition Regulation Supplement (“DFARS”). Recent flow-down entailed Executive Order 14042 which mandates the vaccination of all staff. We may not be able to enforce mandatory vaccination resulting in losing key staff members, thus impacting on our ability to provide contractual engineering services.

Further, the Pandemic may continue to affect the Company’s results of operation, financial position, and liquidity.

The Marine Technology Business is dependent on its workforce and/or distributors/resellers to sell and deliver its products and services. Developments such as social distancing, shelter -in- place directives and travel restrictions introduced by governments have impacted the Marine Products Business’s ability to deploy its workforce effectively. These same developments may affect the operations of the Company’s suppliers, Customers and distributors/resellers, as their own workforces and operations are disrupted by efforts to curtail the spread of this virus. The Company, being a manufacturing company, in large part is unable to work remotely. The Company’s activities are performed in certain international locations that are also impacted by the COVID-19 outbreak. Furthermore, it is critical for the Marine Technology Business to have in-person engagement with customers for the demonstration of its products from a vessel at sea. The restriction on global travel has resulted in significantly less customer engagement which affects the demand for its goods and services. These disruptions continue to impact the business. Particularly, its ability to perform sustained and meaningful business development and marketing activities, which require demonstrations at sea at customer locations. Asia which is a significant region for our solutions and products, still has strict restrictions as they relate to foreigners entering these countries. These restrictions cumulatively affect demand for our goods and services.

**NOTE 17 – INCOME TAXES**

The Company’s effective tax rate for the three months ended January 31, 2022, and 2021, was 6.0% and (11.8%) respectively. The increase in the effective tax rate for the three months ended January 31, 2022, as compared to January 31, 2021, resulted from the US companies becoming tax paying entities having used up their net operating loss carry-forwards.

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

The information herein contains forward-looking statements. All statements other than statements of historical fact made herein are forward looking. In particular, the statements herein regarding industry prospects and future results of operations or financial position are forward-looking statements. These forward-looking statements can be identified by the use of words such as “believes,” “estimates,” “could,” “possibly,” “probably,” “anticipates,” “projects,” “expects,” “may,” “will,” or “should” or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. Forward-looking statements reflect management’s current expectations and are inherently uncertain. Our actual results may differ significantly from management’s expectations.

The following discussion and analysis should be read in conjunction with our financial statements, included herewith and the audited financial statements included in our annual report on Form 10-K filed with the Securities and Exchange Commission on February 14, 2022. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment of our management.

**General Overview**

Throughout these discussions, the following terminologies listed immediately below are used and have the meanings ascribed to them in the said table.

“*Current Quarter*”: Three-month period ended January 31, 2022

“*Previous Quarter*”: Three-month period ended January 31, 2021

We operate two distinct business operations. These are:

- the Marine Technology Business (also referred to in this Form 10-Q as “Products Business”, “Products Operations” or “Products Segment”); and
- the Marine Engineering Business (also referred to in this Form 10-Q as “Engineering Business”, “Engineering Operations”, or “Services Segment”).

Our Marine Technology Business is a technology solution provider to the subsea and underwater market. It owns key proprietary technology including real time volumetric imaging sonar technology and diving technology, both of which are applicable to the underwater defense and commercial markets. All design, development and manufacturing of our technology and solutions are performed within the Company.

Our imaging sonar technology products and solutions marketed under the name of Echoscope® and Echoscope PIPE® are used primarily in the underwater construction market, offshore wind energy industry (offshore renewables), and offshore oil and gas, complex underwater mapping, salvage operations, dredging, bridge inspection, underwater hazard detection, port security, mining, fisheries, commercial and defense diving, and marine sciences sectors. Our diving technology marketed under the name “CodaOctopus® DAVD” (Diver Augmented Vision Display) addresses the global defense and commercial diving markets and has the potential to radically change how diving operations are

performed globally because it delivers a real time information platform for diving and allows diving operations to be performed in zero visibility water conditions and provides real time map of the dive area.

We generate most of our revenues from our real time 3D sonar which includes both hardware and proprietary software. Our customers include service providers to major oil and gas companies, renewable energy companies, law enforcement agencies, ports, mining companies, defense bodies, research institutes and universities.

Our Services Business acts primarily as a sub-contractor to prime defense contractors and engineer sub-assemblies which are utilized in broader defense programs. The Services Business has operations in the USA and UK. Its central business model is the design and manufacture of sub-assemblies for utilization into larger defense mission critical integrated systems ("MCIS"). An example of such MCIS is the US Close-In-Weapons Support (CIWS) Program for the Phalanx radar-guided cannon used on combat ships. These proprietary sub-assemblies, once approved within the MCIS program, afford the Services Business the status of preferred supplier for these items. Such status permits it to supply these sub-assemblies and upgrades in the event of obsolescence or advancement of technology for the life of the MCIS program. Clients include prime defense contractors such as Raytheon, Northrop Grumman, Thales Underwater and BAE systems.

#### ***Key Pillars for our Growth Plans***

Our volumetric real time imaging sonar technology and our Diver Augmented Vision Display ("DAVD") are our most promising products for the Group's near-term growth.

Our real time 3D/4D/5D/6D Imaging sonars are the only underwater imaging sonars capable of providing not only complex seabed mapping but inspecting and monitoring in real time 3D/4D/5D/6D moving underwater objects irrespective of water conditions including in zero visibility water conditions (a perennial problem in underwater operations). Competing technology can perform mapping (but not complex mapping) without the ability to perform real time inspection and monitoring of moving objects underwater. We believe our Echoscope PIPE<sup>®</sup> is the only technology that can generate multiple real time 3D/4D/5D and 6D acoustic images using different acoustic parameters such as frequency, field of view, pulse length and acoustic filters.

We are widely considered the leading solution providers for real time 3D visualization underwater.

We also believe that the DAVD system is poised to radically change the way commercial and diving operations are performed globally by advancing the methods of communication, ability to consume and use digital information and real time imaging sonar data, thereby improving safety and reducing the costs of these operations. The DAVD HUD (Head Up Display) concept is protected by patent and is manufactured and distributed under License from United States Department of the Navy at Naval Surface Warfare Center Panama City Division to the Company.

Both the Marine Technology Business and Marine Engineering Business have established synergies in terms of customers and specialized engineering skill sets (hardware, firmware and software) encompassing capturing, computing, processing and displaying data in harsh environments. Both businesses jointly bid for projects for which their common joint skills provide competitive advantage and make them eligible for such projects.

#### **Factors Affecting our Business**

Following is a short description of some of the most critical and pressing factors that affect our business. For a more detailed discussion of these and additional factors, refer to our Form 10-K for the fiscal year ended October 31, 2021, that is hereby incorporated by reference.

#### ***General Impact***

Our operations continue to be impacted by the Coronavirus outbreak ("Pandemic"). We rely on the ability to sell our solutions offered by the Marine Technology Business, globally. Asia is a very significant market for our technology solutions including Japan, China, South Korea. All these countries without exception have severe restrictions which continue to affect our ability to have in-person visits with customers to demonstrate our new offerings which underpin our growth strategy including Echoscope PIPE<sup>®</sup> and CodaOctopus<sup>®</sup> DAVD (Diver Augmented Vision Display System) and our new enterprise software solution 4G USE<sup>®</sup>. Our products and solutions, including the top end software which controls the sonar and DAVD are complex and do require in-person demonstration and training for customers to benefit optimally from their adoption.

In addition, we are significantly impacted by the increasing unavailability of critical components for our products and also parts for bespoke engineering by our Engineering Segment. This is further compounded by significant price increases which, on the Marine Technology Business side, we are unlikely to be able to pass on to our customers. This is therefore likely to impact our realizable margins.

We are also experiencing skills shortage in areas that are critical to our growth strategy including in experienced sales and marketing personnel. In addition, the competition is very fierce for skills and we are seeing significant increase in costs associated with wages and salaries and demands from potential candidates to work from home as a precondition to joining our team. This is further exacerbated by the United Kingdom leaving the European Union, which complicates hiring qualified candidates from EU member states.

The Services Business continues to experience difficulties in closing orders due to a combination of factors including delays in Defense Prime Contractors securing their orders. This means that sub-contracting is slow.

#### ***Impact on Revenues and Earnings***

Until the business environment normalizes, we are uncertain as to the extent of the impact the Pandemic will have on our future financial results. In the Current Quarter both the Marine Technology Business and our Engineering Business have been impacted by the constraints caused by the Pandemic which in turn is impeding our ability to do meaningful business development and opportunities pipeline building all of which affect our financial performance as a business.

#### ***Impact on Liquidity, Balance Sheet and Assets***

Failure to curb the coronavirus Pandemic in the near future, coupled with the projected downturn in the global economic outlook, may adversely impact on our availability of free cash flow, working capital and business prospects. As of January 31, 2022, we had cash and cash equivalents of approximately \$20,711,288 and in the Current Quarter we generated approximately \$3,461,499 of cash from operations. Based on our outstanding obligations and our cash balances, we believe we have sufficient working capital to effectively continue our business operations for the foreseeable future.

#### **Critical Accounting Policies**

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements that have been prepared under accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the reported values of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and

the reported levels of revenue and expenses during the reporting period. Actual results could materially differ from those estimates.

Below is a discussion of accounting policies that we consider critical to an understanding of our financial condition and operating results and that may require complex judgment in their application or require estimates about matters which are inherently uncertain. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 2, "Summary of Accounting Policies" of our Consolidated Financial Statements for the year ended October 31, 2021.

#### *Revenue Recognition*

Our revenues are earned under formal contracts with our customers and are derived from both sales and rental of underwater solutions for imaging, mapping, defense and survey applications and from the engineering services that we provide. Our contracts do not include the possibility for additional contingent consideration so that our determination of the contract price does not involve having to consider potential variable additional consideration. Our product sales do not include a right of return by the customer.

With regard to our Products Segment, all of our products are sold on a stand-alone basis and those market prices are evidence of the value of the products. To the extent that we also provide services (e.g., installation, training, etc.), those services are either included as part of the product or are subject to written contracts based on the stand-alone value of those services. Revenue from the sale of services is recognized when those services have been provided to the customer and evidence of the provision of those services exist.

For further discussion of our revenue recognition accounting policies, refer to Note 2 – "Revenue Recognition" in these consolidated financial statements and in our Annual Report on Form 10-K for the fiscal year ended October 31, 2021.

#### *Recoverability of Deferred Costs*

We defer costs on projects for service revenue. Deferred costs consist primarily of direct and incremental costs to customize and install systems, as defined in individual customer contracts, including costs to acquire hardware and software from third parties and payroll costs for our employees and other third parties.

We recognize such costs on a contract by contract basis in accordance with our revenue recognition policy. For revenue recognized under the completed contract method, costs are deferred until the products are delivered, or upon completion of services or, where applicable, customer acceptance. For revenue recognized under the percentage of completion method, costs are recognized as products are delivered or services are provided in accordance with the percentage of completion calculation. For revenue recognized ratably over the term of the contract, costs are also recognized ratably over the term of the contract, commencing on the date of revenue recognition. At each balance sheet date, we review deferred costs, to ensure they are ultimately recoverable. Any anticipated losses on uncompleted contracts are recognized when evidence indicates the estimated total cost of a contract exceeds its estimated total revenue.

#### *Income Taxes*

The Company accounts for income taxes in accordance with Accounting Standards Codification 740, Income Taxes (ASC 740). Under ASC 740, deferred income tax assets and liabilities are recorded for the income tax effects of differences between the bases of assets and liabilities for financial reporting purposes and their bases for income tax reporting. The Company's differences arise principally from the use of various accelerated and modified accelerated cost recovery system for income tax purposes versus straight line depreciation used for book purposes and from the utilization of net operating loss carry-forwards.

Deferred tax assets and liabilities are the amounts by which the Company's future income taxes are expected to be impacted by these differences as they reverse. Deferred tax assets are based on differences that are expected to decrease future income taxes as they reverse. Correspondingly, deferred tax liabilities are based on differences that are expected to increase future income taxes as they reverse.

For income tax purposes, the Company uses the percentage of completion method of recognizing revenues on long-term contracts which is consistent with the Company's financial reporting under U.S. generally accepted accounting principles.

#### *Intangible Assets*

Intangible assets consist principally of the excess of cost over the fair value of net assets acquired (or goodwill), customer relationships, non-compete agreements and licenses. Goodwill was allocated to our reporting units based on the original purchase price allocation. Goodwill is not amortized and is evaluated for impairment annually or more often if circumstances indicate impairment may exist. Customer relationships, non-compete agreements, patents and licenses are being amortized on a straight-line basis over periods of 2 to 15 years. The Company amortizes its limited lived intangible assets using the straight-line method over their estimated period of benefit. Annually, or sooner if there is indication of a loss in value, we evaluate the recoverability of intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists.

The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value, which is based on future cash flows, exceeds the carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the fair value, goodwill is reduced by the excess of the carrying amount of the reporting unit over that reporting unit's fair value. Goodwill can never be reduced below zero, if any. At the end of each year, we evaluate goodwill on a separate reporting unit basis to assess recoverability, and impairments, if any, are recognized in earnings. An impairment loss would be recognized in an amount equal to the excess of the carrying amount of the goodwill over the implied fair value of the goodwill. There were no impairment charges during the periods presented.

### **Consolidated Results of Operations**

#### **Summary**

In the Current Quarter our financial results have been adversely impacted by a number of factors. These are:

- The ongoing Pandemic continues to affect our business development activities as in-person meeting and demonstrations with our customers are required due to the nature of our offerings.
- Weaker than expected backlog of orders in the Services Segment.
- Sustained increases in component prices.
- Significant lead times for routine components for our products.

#### **Segment Summary**

In the Current Quarter the Products Business generated 65.5% of our consolidated revenues compared to 74% in the Previous Quarter. In the Current Quarter the Products

Business realized an increase in net income before taxes of 17.5%. This was \$1,972,634 in the Current Quarter compared to \$1,678,218 in the Previous Quarter. Revenues generated in the Current Quarter increased by 2% and was \$3,823,748 compared to \$3,748,279. Gross Profit Margin increased and was 85% in the Current Quarter compared to 76.1% in the Previous Quarter. Total Operating Expenses increased by 9.1%. In the Current Quarter the Products Business completed significant milestone deliverables for our DAVD GEN 3.0 funded Program including expanding the capability to the Full Face Mask (FFM). Previously the DAVD was compatible with the Kirby Morgan Helmets. We also completed the introduction of the capability to support multiple divers and automating a number of key functions for the DAVD system.

In the Current Quarter the Services Business generated 34.5% of our consolidated revenues compared to 26% in the Previous Quarter. In the Current Quarter the Services Business's recorded net income before taxes of \$179,733 compared to loss before income taxes of \$253,169 in the Previous Quarter. Revenues generated in the Current Quarter increased by 54.7% and was \$2,014,460 compared to \$1,302,180 in the Previous Quarter. Gross Profit Margin was 45.1% in the Current Quarter compared to 35.4% in Previous Quarter. Total Operating Expenses increased by 12.1% in the Current Quarter.

### Results of Operations for the Current Quarter compared to the Previous Quarter

**Revenue:** Total consolidated revenues for the Current Quarter and the Previous Quarter were \$5,838,208 and \$5,050,459 respectively, representing an increase of 15.6%. Revenue in both the Products and Services Businesses increased over the Previous Quarter. Revenue in the Products Business increased by 2% and Services Business by 54.7%.

**Gross Profit Margins:** Margin percentage was stronger in the Current Quarter at 71.3% (gross profit of \$4,159,934) compared to 65.6% (gross profit of \$3,314,922) in the Previous Quarter.

Gross Profit Margins reported in our financial results may vary according to several factors. These include:

- The percentage of consolidated sales attributed to the Marine Technology Business. The Gross Profit Margin yielded by the Marine Technology Business is generally higher than that of the Services Business;
- The percentage of consolidated sales attributed to the Services Business. The Services Business yields a lower gross profit margin on generated sales which are largely based on time and materials contracts
- The mix of sales within the Marine Technology Business during the reporting period:
  - Outright Sale versus Rentals;
  - Hardware Sale versus Software;
  - Mix of Services rendered in the period – Offshore Engineering Services versus Paid Customer Research and Development Projects;
- The mix of engineering projects performed (Design prototyping versus manufacturing), may also affect Gross Profit Margins;
- Level of commissions on products which may vary according to volume. Both the Services and Marine Technology Businesses work with sales/distribution agents.
- Level of Rental Assets in the Marine Technology Business' Rental Pool and therefore subject to depreciation.

In the Current Quarter Gross Profit Margins for the Products operations were 85.0% compared to 76.1% in the Previous Quarter. For the Services operation these were 45.1% in the Current Quarter compared to 35.4% in the Previous Quarter.

Since there are more variable factors affecting Gross Profit Margins in the Products Business, a table showing a summary of break-out of sales generated by the Products Business in the Current Quarter compared to the Previous Quarter is set out below:

	Current Quarter Products	Previous Quarter Products	Percentage Change
Equipment Sales	\$ 1,958,845	\$ 2,793,487	(29.88)%
Equipment Rentals	630,468	334,363	88.56%
Software Sales	304,796	225,222	35.33%
Services	929,639	395,207	135.23%
<b>Total Net Sales</b>	<b>\$ 3,823,748</b>	<b>\$ 3,748,279</b>	<b>2.01%</b>

In the Current Quarter the Products Business incurred Commission costs of \$138,372 compared to \$281,105, representing a 50.8% fall, resulting in Gross Profit Margins being higher.

Further information on the performance in the Current Quarter compared to the Previous Quarter of each Segment including revenues by product and geography can be found in Note 14 and Note 15 to the Unaudited Consolidated Financial Statements.

We believe that the decrease in the Equipment Sales category in the Current Quarter is due to the impending industry trade show, Oceanology 2022, which is scheduled to take place on March 15 -17, 2022. We typically see postponement of capital investment decisions until after the event.

**Research and Development (R&D):** R&D expenditures in the Current Quarter were \$672,890 compared to \$583,139 in the Previous Quarter, representing an increase of 15.4%.

Segment	January 31, 2022	January 31, 2021	Percentage Change
Services Segment R&D Expenditures	\$ 143,515	\$ 141,395	Increase of 1.50%
Products Segment R&D Expenditures	\$ 529,375	\$ 441,744	Increase of 19.84%

**Selling, General and Administrative Expenses (SG&A):** SG&A expenses for the Current Quarter increased by 16.4% to \$2,111,112 from \$1,813,366 in the Previous Quarter. In the Previous Quarter SG&A was reduced by \$83,500 representing payroll assistance received under the UK Coronavirus Job Retention Scheme (CJRS) for UK staff who were furloughed during the Current Quarter. SG&A also includes non-cash item relating to charges for stock-based compensation which in the Current Quarter was \$325,175 compared to \$174,447, representing an 86.4% increase. The main variances in SG&A therefore relates to these two items discussed here.

Key Areas of SG&A Expenditure across the Group for the Current Quarter compared to the Previous Quarter are:

Expenditure	January 31, 2022	January 31, 2021	Percentage Change
Wages and Salaries	\$ 903,162	\$ 838,306	Increase of 7.74%
Legal and Professional Fees (including accounting and audit)	\$ 359,018	\$ 336,109	Increase of 6.82%
Rent for our various locations	\$ 15,745	\$ 9,765	Increase of 61.24%
Marketing	\$ 13,766	\$ 11,330	Increase of 21.5%

The increase in the “Wages and Salaries” category of expenditure reflects \$83,500 in contributions under the CJRS which resulted in the reduction in SGA during the Previous Quarter. Nevertheless, we expect this area of expenditure to increase as we are investing in business development and sales resources and we also expect an increase in labor costs due to general skills shortage and also inflationary pressures in both the US and UK.

The increase in “Legal and Professional” reflects additional costs associated with increasing our accounting functions.

The increase in Marketing is anticipated within our plans and reflects an increase in marketing activities. This is an area of expenditures which we anticipate will increase materially in this fiscal year and subsequent years. As we shift our focus from R&D to business development and marketing, including undertaking efforts to build our brands, we anticipate a significant increase in this area of expenditure.

**Operating Income:** In the Current Quarter Operating Income increased by 49.8% and was \$1,375,932 as compared to \$918,417 in the Previous Quarter. The increase in Operating Income is due to the increase in consolidated revenues realized in the Current Quarter.

**Interest Expense:** Interest expense in the Current Quarter was \$11,278 compared to \$14,514 in the Previous Quarter, representing a fall of 22.3%. In the Current Quarter we paid the last interest payable on the HSBC NA debentures. All indebtedness under the debentures have been satisfied in full and therefore there will be no further interest payments in the foreseeable future. Please refer to Note 11 – Note Payable to the Unaudited Consolidated Financial Statements for further details pertaining to this HSBC Loan for more information on this.

**Other Income:** In the Current Quarter, we had Other Income of \$79,994 compared to \$92,025, representing a fall of 13.1% from the Previous Quarter. In the Previous Quarter we had contributions under the Paycheck Protection Program of \$89,971 compared to \$0 in the Current Quarter. Similarly in the Previous Quarter we had \$0 for Employee Retention Credit, compared to \$68,917 in the Current Quarter.

**Income before income taxes:** In the Current Quarter, we had income before income taxes of \$1,444,648 as compared to \$995,928 in the Previous Quarter, representing an increase of 45.1%. Income before income tax increased largely due to the increase in the Current Quarter of our consolidated revenues.

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**Net Income:** In the Current Quarter we had Net Income of \$1,217,248 compared to \$1,128,844 in the Previous Quarter, representing an increase of 7.8%. In the Previous Quarter we recorded Current Tax Benefit of \$24,725 and in the Current Quarter we recorded Current Tax Expense of \$285,609 and similarly we recorded Deferred Tax Benefit in the Current Quarter of \$58,209 compared to \$108,191 in the Previous Quarter. The Company has now utilized its net operating loss carry forwards and therefore it is expected that the US companies will become tax paying entities.

**Comprehensive Income:** In the Current Quarter Comprehensive Income was \$1,458,398 compared to \$2,054,456 for the Previous Quarter. This category is affected by fluctuations in foreign currency exchange transactions. In the Current Quarter we had a foreign currency translation adjustment of \$241,150 compared to \$925,613 in the Previous Quarter. With the removal of the uncertainty of the future relationship between the United Kingdom and the European Union (“EU”) following its withdrawal from the EU and the entering into a trade agreement, we anticipate that the British Pound will be less volatile against the US\$ and other major currencies.

#### Liquidity and Capital Resources

At January 31, 2022, the Company had an accumulated deficit of \$17,260,609, working capital of \$32,360,629, cash of \$20,711,228 and stockholders’ equity of \$42,832,646. For the Current Quarter, the Company’s operating activities provided cash of \$3,461,499.

The Company entered into a \$4,000,000 revolving line of credit with HSBC NA on November 27, 2019, at prime. The outstanding balance on the line of credit was \$0 as of January 31, 2022. This revolving credit line will expire on November 26, 2022, unless renewed by the bank.

#### Financing Activities

##### Secured Promissory Note

On April 28, 2017, the Company and its US based subsidiaries entered into a loan agreement with HSBC Bank NA (the “Lender”) for a loan in the principal amount of \$8,000,000 (the “Loan”). The annual interest rate was fixed at 4.56%. The obligations in connection with the repayment of the Loan were secured by all assets of Coda Octopus Group, Inc., and its US subsidiaries. Our foreign subsidiaries were joint and several guarantors of the obligations. This loan was paid in full in December 2021 and all obligations under the HSBC Loan have now been satisfied.

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#### Inflation and Foreign Currency

The Company maintains its books in functional currency. In this connection, these are:

- US Dollars for US Operations;
- British Pound for United Kingdom Operations;
- Danish Kroner for our Danish Operations; and
- Australian Dollars for our Australian Operations.

Note 4 (Foreign Currency Translation) of our Unaudited Consolidated Financial Statements discusses fully the applicable rates used for our Balance Sheet and Income Statement.

Fluctuations in currency exchange rates can affect the Company’s sales, profitability and financial position when the foreign currencies of its international operations are translated into U.S. dollars for financial reporting. In addition, we are also subject to currency fluctuation risk with respect to certain foreign currency denominated receivables and payables. The Company cannot predict the extent to which currency fluctuations may affect the Company’s business and financial position, and there is a risk that such fluctuations will have an adverse impact on the Company’s sales, profits and financial position. Also, because differing portions of our revenues and costs are denominated in foreign currency, movements can impact our margins by, for example, decreasing our foreign revenues when the dollar strengthens without correspondingly decreasing our expenses. The Company does not currently hedge its currency exposure.

Since the United Kingdom’s decision to withdraw from the European Union in 2016, the British Pound has been extremely volatile and because a significant part of our operations is based in the United Kingdom we suffered, since then, significant adverse exchange rate movements. However, since the final withdrawal from the EU by the United Kingdom in December 2020, the British Pound has been regaining its strength and we anticipate that the volatility that we experienced during the lead up to UK leaving the European Union will abate.

The impact of currency fluctuations on the three months ended January 31, 2022, is shown below. In this context “Constant Rates” is defined as the weighted average exchange rate prevailing in the Previous Quarter.

	British Pounds		Australian Dollar		Danish Kroner		US Dollar		Total Effect
	Actual Results	Constant Rates	Actual Results	Constant Rates	Actual Results	Constant Rates	Actual Results	Constant Rates	
Revenues	2,535,282	2,601,843	-	-	388,743	410,428	2,924,025	3,012,271	(88,246)
Costs	2,262,261	2,321,654	24,254	25,575	70,145	74,058	2,356,660	2,421,286	(64,626)
Net profit (losses)	273,021	280,189	(24,254)	(25,575)	318,598	336,370	567,365	590,984	(23,619)
Assets	22,672,721	23,102,691	32,500	34,633	2,142,098	2,209,870	24,847,319	25,347,194	(499,875)
Liabilities	(1,119,560)	(1,140,792)	(2,610)	(2,781)	(19,688)	(20,311)	(1,141,858)	(1,163,884)	22,026
Net assets	21,553,161	21,961,900	29,890	31,852	2,122,410	2,189,559	23,705,461	24,183,311	(477,850)

This table shows that the effect of constant exchange rates, versus the actual exchange rate fluctuations, decreased our net income on activities in the Current Quarter by \$23,619 and decreased net assets by \$477,850. In addition, the Company booked transactional exchange rate gain of \$241,150 during the Current Quarter.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

#### Item 4. Controls and Procedures

##### a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

The Company’s management, under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial (and principal accounting) Officer, carried out an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of January 31, 2022. Based upon that evaluation the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report.

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##### (b) Changes in Internal Controls.

There was no change in our internal controls over financial reporting that has materially affected, or is reasonable likely to materially affect, our internal control over financial reporting during the quarter covered by this Report.

## PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

#### Item 1A. Risks Factors

Not required for smaller reporting companies

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

#### Item 3. Defaults Upon Senior Securities

None.

#### Item 4. Mine Safety Disclosures

Not Applicable.

#### Item 5. Other Information

#### Item 6. Exhibits

31 [Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14\(a\)](#)

32 [Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

101.INS Inline XBRL Instance Document.

101.SCH Inline XBRL Taxonomy Extension Schema Document



101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

***SIGNATURES***

*Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.*

**Coda Octopus Group, Inc.** (Registrant)

Date: March 16, 2022

*/s/ Annmarie Gayle*  
\_\_\_\_\_  
Annmarie Gayle  
Chief Executive Officer

Date: March 16, 2022

*/s/ Michael Midgley*  
\_\_\_\_\_  
Michael Midgley  
Chief Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**  
**Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

*I, Annmarie Gayle, certify that:*

1. I have reviewed this Quarterly Report on Form 10-Q of Coda Octopus Group, Inc. for the quarter ended January 31, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2022

By: /s/ Annmarie Gayle

Annmarie Gayle  
 Chairman and Chief Executive Officer  
 (Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER**  
**Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

*I, Michael Midgley, certify that:*

1. I have reviewed this Quarterly Report on Form 10-Q of Coda Octopus Group, Inc. for the quarter ended January 31, 2022;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2022

*/s/ Michael Midgley*

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Michael Midgley

Chief Financial Officer

(Principal Financial and Accounting Officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Coda Octopus Group, Inc., a Delaware corporation (the “Company”), for the period ended January 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Annmarie Gayle, Chief Executive Officer of the Company, and Michael Midgley, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 16, 2022

*/s/ Annmarie Gayle*

\_\_\_\_\_  
Annmarie Gayle  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

*/s/ Michael Midgley*

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Michael Midgley  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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